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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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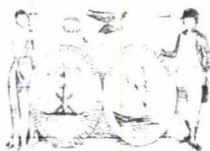
TECHNICAL COLLEGE OF THE LOWCOUNTRY

AGENCY

JULY 1, 1992 - DECEMBER 31, 1994

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



DAVID M. BEASLEY, CHAIRMAN
GOVERNOR

RICHARD A. ECKSTROM
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

HELEN T. ZEIGLER
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CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

September 21, 1995

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the final audit report for the Technical College of the Lowcountry. Since we are not recommending any certification above the basic \$5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend that the report be presented to the Budget and Control Board as information.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ray Grant".

Ray L. Grant

Materials Management Officer

TECHNICAL COLLEGE OF THE LOWCOUNTRY

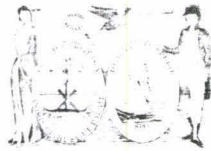
PROCUREMENT AUDIT REPORT

July 1, 1992 - December 31, 1994

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

September 15, 1995

Mr. Ray L. Grant
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have examined the procurement policies and procedures of the Technical College of the Lowcountry for the period July 1, 1992 through December 31, 1994. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and College procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Technical College of the Lowcountry is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to

disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Technical College of the Lowcountry in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of Technical College of the Lowcountry. Our on-site review was conducted February 28, 1995 through March 9, 1995 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the College in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Technical College of the Lowcountry and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We systematically selected samples for the period July 1, 1992 through December 31, 1994 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sales for the period July 1, 1992 - December 31, 1994
- (2) Procurement transactions for the period July 1, 1992 to December 31, 1994 as follows:
 - a) One hundred eighteen payments exceeding \$500 each
 - b) A block sample of approximately 350 purchase orders issued from during July 1994 through December 1994
 - c) A block sample of approximately 100 work orders
- (3) Three professional service contracts and one construction contract for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Reports for the audit period
- (5) Information Technology Plans for Fiscal Years 92/93 and 93/94
- (6) Internal procurement procedures manual
- (7) Procurement file documentation and audit trails

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Technical College of the Lowcountry, hereinafter referred to as the College, produced findings and recommendations as follows:

	<u>PAGE</u>
I. <u>Sole Source and Emergency Procurements</u>	6
<u>Inappropriate Sole Sources</u>	
Two sole source transactions were inappropriate.	
II. <u>General Procurement Code Violations</u>	
A. <u>Purchases Without Evidence of Competition</u>	7
Seven transactions did not have any evidence of competition or sole source or emergency determinations.	
B. <u>Payments Made Without Verification of Goods Being Received</u>	8
Five transaction payments were made without a signature to verify the receipt of items.	
C. <u>Change Orders</u>	9
Four transactions had payments made in excess of the purchase order amount without an authorized change order to document concurrence by the Purchasing Officer.	
D. <u>Rejection of Quotations</u>	10
The College does not sufficiently document reasons for the rejection of low quotes.	
E. <u>State Term Contracts</u>	10
The state term contract number was not referenced on seven purchase orders.	
F. <u>Procurement Procedures Manual</u>	10
The manual needs to be revised.	
III. <u>Unauthorized Purchases</u>	10
There was an excessive number of unauthorized purchases declared by the College. One unauthorized purchase ratified by the President exceeded the College's certification and ratification limits.	

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements for the period July 1, 1992 through December 31, 1994. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Office of General Services as required by Section 11-35-2440 of the Consolidated Procurement Code.

We noted two sole sources which were inappropriate.

<u>Item</u>	<u>Date</u>	<u>PO #</u>	<u>Description</u>	<u>Amount</u>
1	1/18/93	930889	Driving School	\$22,872
2	11/23/93	940737	Driving School	18,468

The College received proposals from three vendors and based its selection on the additional training provided plus room and board offered by the vendor. These were not included in the proposals. Since competition was available, these sole sources were inappropriate and did not meet the criteria of a sole source procurement. Additionally, since these procurements exceeded the College's certification limit they should have been submitted to the Materials Management Office for processing.

Section 11-35-1560 of the South Carolina Consolidated Procurement Code allows for sole source procurements where there is only one source for a required item or service. We recommend that procurements which do not meet the strict definition of a sole source be competed in accordance with the Procurement Code. The College should discontinue using sole source procurements in cases where competition is available.

COLLEGE RESPONSE

The College agrees that the two purchase order issued to the vendor should not have been issued as sole sources. We will send all future orders of this nature to the Materials Management Office for competitive bids.

II. General Procurement Code Exceptions

We reviewed a random sample from each of the four procurement areas defined by the Consolidated Procurement Code as well as performed other tests in accordance to our standard audit program. The results of these tests were as follows.

A. Purchases Without Evidence of Competition

Of the 118 payments reviewed, we found seven transactions that lacked any of evidence of competition or sole source or emergency determinations.

<u>Item</u>	<u>PO #</u>	<u>Description</u>	<u>Date</u>	<u>Amount</u>
1	930740	Engine Analyst Equipment	12/04/92	\$ 1,154.77
2	930975	Toner	01/29/93	639.76
3	940187	Building Materials	08/04/93	1,764.00
4	940396	Janitorial Supplies	09/17/93	2,220.49
5	940511	Tree Removal	10/01/93	1,800.00
6	950366	Maintenance Agreement	9/1/94	2,076.00
7	941033	Promotional Items	2/2/94	1,848.00

For items one and two Regulation 19-445.2100 required a minimum of two verbal solicitations on purchases greater than \$500 but less than \$1500.

Item three was for building materials for repairs. The type of panels needed in the repair might possibly have been available only from the vendor at the time, however documentation to support this did not accompany the purchase order.

For items four, five, six, and seven competition should have been sought. Section 11-35-1550(2)(b) of the Code requires verbal or written solicitation from a minimum of three qualified sources when the value is between \$1,500 and \$5,000.

We recommend the College adhere to the competitive requirements of the Code.

COLLEGE RESPONSE

1. PO 930740 - Engine Analyst Equipment
As this purchase order relates to service of equipment which is vendor specific, the College must sole source the contract. The College will use this method for all future service to the equipment.
2. PO 930975 - Toner
The maintenance contract for all copiers was bid by the Materials Management Office. The College plans to include toner as a part of all future maintenance bids.
3. PO 94017 - Building Materials
The panels at the front of General Education Building were damaged in a storm. This company was the only company that could match the panels. The College should have documented attempts to obtain the materials from the other sources. This will be done for any future orders.
4. PO 940396 - Janitorial Supplies
The College will obtain competitive bids for any future purchases of this nature.
5. PO 940511 - Tree Removal
The College failed to document attempts to obtain the service from another vendor which would have made the purchase conform to the Code. This will be done on future purchases.
6. PO 950366 - Maintenance Agreement.
This was a maintenance agreement for the College's Energy Management System. The College will investigate whether the service is vendor specific requiring a sole source procurement. If is not the maintenance service will be solicited through the bid process.
7. PO 941033 - Promotional Items
The items purchased with TCL logo were correctly classified as advertising. Future purchases will be obtained through the bid process.

B. Payments Made Without Verification of Items Being Received

We noted a procedural weakness as payments were made without an original signature verifying the receipt of items. Receiving reports were not completed. We noted five transactions of this type in our sample.

<u>Item</u>	<u>Voucher #</u>	<u>PO #</u>	<u>Description</u>	<u>Amount</u>
1	109588	931529	Copier	\$5,353.15
2	118921	P5000243	Electrical Supplies	7,979.01
3	118938	850342	Books	3,358.93
4	118733	850325	Books	3,575.91
5	116013	941211	Workbooks	2,197.65

We recommend the College evaluate the current procedures for getting receiving reports signed to ensure no payments are made until verification of receipt of goods and services is documented.

COLLEGE RESPONSE

As a result of excessive work demands on staff and attempts to obtain all purchase discounts, the College has processed items for payment based on verbal confirmations of receipts of goods. This practice has been discontinued and no future payments will be made until the receipt of goods or services has been documented.

C. Change Orders

The College does not have a formal change order policy. A lack of change order procedures lead to invoices being paid which did not agree with the purchase orders on the following four procurements.

<u>PO #</u>	<u>Amount</u>	<u>Amount Paid</u>	<u>Description</u>
930143	\$ 100.00	\$ 669.80	Computer Repair
930585	213.44	1,020.43	Paper
930749	751.34	985.92	Furniture
940636	1,440.00	2,662.46	Printing

We recommend a formal change order procedure be implemented. A formal change order procedure will assure that payments are made based on the prices on the purchase orders. Any increase or decrease should be approved by the Procurement Officer.

COLLEGE RESPONSE

A formal change order policy has been implemented which will assure that any increase or decrease in costs will be approved by the Procurement Officer prior to completion of the purchase as recommended by the procurement auditors.

D. Rejection of Quotations

We noted two procurements where the College purchased items other than the low quoted price without documenting reasons for rejecting the low quote.

<u>Item</u>	<u>Voucher #</u>	<u>Description</u>	<u>Rejected Bid</u>	<u>Bid Awarded</u>
1	116263	Printing	\$2,019.00	\$2,090.00
2	113175	Scaffold	969.00	2,780.00

Section 19-445.2065 states in part "Unless there is a compelling reason to reject one or more bids, award will be made to the lowest responsible and responsive bidder."

We recommend the College properly document the reason why it determines a bidder's quotation to be nonresponsible or nonresponsive. In the above cases there was not a clear reason documented as to why the low bid was rejected.

COLLEGE RESPONSE

The College will work to establish more comprehensive specifications for purchases and if a quote is rejected the reason for not accepting the lowest responsible and responsive bidder will be documented.

E. State Term Contracts Numbers Not Referenced

We noted in our sample a number of purchases made from state contracts that did not reference the state term contract numbers. For compliance verification, we recommend every purchase made from an existing state contract reference the contract number.

COLLEGE RESPONSE

All state contract numbers will be listed on all future state contract purchases.

F. Procurement Procedures Manual

We reviewed the procurement procedures manual for compliance to the Code. We found it to be deficient in a number of areas. A detail listing of the needed revisions was given to the Procurement Officer along with a sample copy of an approval manual. A revised manual must be prepared and submitted to the Office of Audit and Certification for approval.

COLLEGE RESPONSE

The procurement manual is being updated and will be sent to the Office of Audit and Certification for approval.

III. Unauthorized Purchases

There was an excessive number of unauthorized purchases declared by the College during our audit period. A memorandum from the President in February 1993 addressed the problem of excessive unauthorized purchases. Approximately one half of the unauthorized purchases ratified were less than \$100.

excessive unauthorized purchases. Approximately one half of the unauthorized purchases ratified were less than \$100.

College policy requires that all procurements be authorized by the Purchasing Office. If an unauthorized act is committed, that procurement must be submitted to the appropriate authority for ratification. Regulation 19-445.2015 requires that each ratification address corrective action to prevent recurrence.

Since these incidents continue to recur, it appears that corrective action has not been effective. We recommend that the College either enforce its unauthorized procurement corrective action policy or consider instituting a simplified small local purchase order procedure (LPO) to cover recurring orders less than \$100 made by the departments.

We noted one unauthorized procurement for \$8,740 on purchase order 931895 dated 5/5/93 that was ratified by the President. Regulation 19-445.2015 allows for ratification by the head of the governmental body when the procurement is within the certification of the body. The certification for the College, at the time of the procurement, was \$2,500. The ratification should have been forwarded to the Materials Management Office.

We recommend the College forward a ratification request, per Regulation 19-445.2015 (2), to the Materials Management Officer.

COLLEGE RESPONSE

The College will implement two actions which should reduce the number of unauthorized purchases.

1. The College is developing a small purchase procedure for purchase less than \$150. A pre-numbered requisition/small purchase form will be used which will be completed by the requestor and, upon approval by the procurement office, may be forwarded to the vendor. The process should reduce the time required for procurements, reduce the work demand on the procurement office, and thus eliminate some of the factors which tend to result in unauthorized purchases.
2. The College is implementing the following corrective action procedure for addressing unauthorized purchase:

- b. All new employees who have a responsibility for procurement must attend a training session on procurement procedures to be scheduled by the employee's supervisor with the Procurement Officer.
- c. If an employee should commit an unauthorized purchase, the ratification, in addition to review by the College President, will include:

First Offense:

- 1. Mandatory attendance of a procurement training session
- 2. Supervisor review of the facts and circumstances of the procurement which may result in personnel action and as a written warning or reflection in the employee's performance evaluation.

Repeated Offenses:

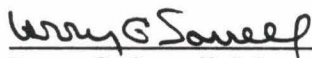
- 1. At the discretion of the President, the employee may be required to reimburse the College:
 - a. The amount of the purchase, or
 - b. The excess of the amount of the actual purchase over the cost to the College through the normal procurement process.
- 2. The supervisor will initiate permanent action to include an official warning on job performance

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all materials respects place the Technical College of the Lowcountry in compliance with the South Carolina Consolidated Procurement Code.

The College has not requested procurement certification above the basic limit of \$5,000 allowed by the Procurement Code. We will perform a follow-up review by August 31, 1995. Subject to corrective action listed in this report, we will recommend the College be allowed to continue procuring goods and services, consultant services, construction and information technology up to that level.


James M. Stiles, CPPB
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

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